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**DIVISION OF
WORKERS'
COMPENSATION**



ANNUAL REPORT

FISCAL YEAR 1989

PLEASE RETURN

JUL 17 1991

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DEPARTMENT OF LABOR & INDUSTRY

DIVISION OF WORKERS' COMPENSATION

MARGARET "PEG" CONDON BLDG
5 SO. LAST CHANCE GULCH

STAN STEPHENS, GOVERNOR

STATE OF MONTANA

HELENA, MONTANA 59601



December 1989

Governor Stan Stephens
GOVERNOR'S OFFICE
State Capitol Building
Helena, MT 59620

Dear Governor Stephens:

As required by Section 39-71-210, MCA, I am sending the "Annual Report" of the Division of Workers' Compensation for the fiscal year ending June 30, 1989.

This report summarizes the activities of the Division for the fiscal year as they pertain to the responsibilities of all the units within the Division.

As you know, SB 428 dissolved the Division of Workers' Compensation by establishing a new entity, the State Compensation Mutual Insurance Fund, to operate the insurance portion of the business and transferred the regulatory and safety responsibilities to the Department of Labor and Industry. Consequently, this will be the last report prepared for the Division of Workers' Compensation. In the future the new State Fund will prepare a separate annual report summarizing its activities.

Sincerely,

A handwritten signature in cursive script, reading "Patrick J. Sweeney".

PATRICK J. SWEENEY
Administrator

Administration
406-444-6518

Division Telephones:
Insurance Compliance
406-444-6530

Safety
406-444-6401



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SECTION I

Division Activities

Administration

Program staff monitored and testified on several legislative proposals during the 1989 session, implemented the automated compensation system for fixed liability payments, met with and made numerous presentations to employer and employee groups concerning Montana's workers' compensation system, completed a survey showing the rates charged by other insurers in twenty western states for twenty occupation classifications, monitored court decisions affecting the workers' compensation system, prepared legislation, and proposed changes to clarify the reform legislation passed by the 1987 legislature.

State Insurance Fund

The State Fund implemented the early contact program and moved the Policy Services Unit to provide additional space for claims staff and files. Staff negotiated an agreement with the Montana Horse Racing Association to improve coverage and premium collection from its members and negotiated a contract with the Montana Motor Carriers' Association to provide safety services to its members. The contract with the Montana Loggers' Association to provide safety services and collect premiums from its members was renewed. State Fund staff initiated development of management information reports with the rehabilitation firms under contract, continued training programs with claims staff, participated in the service training programs conducted by the rehabilitation firms, and participated with a task force to improve audit performance.

Insurance Compliance

Program personnel reviewed over 1,700 settlements, issued 602 orders regarding Occupational Disease claims, and the rehabilitation panels reviewed 301 referrals. Staff continued to review extraterritorial certificates received from nine other states, reviewed renewals and applications from Plan 1 self insurers and Plan 2 insurance carriers, continued investigations of uninsured employers and payment of benefits to injured workers, and reviewed 126 applications to the Subsequent Injury Fund, approving 59 and denying 67.

Safety

Safety personnel contacted 1,026 employers to provide safety services. They also conducted 355 public sector safety inspections. Safety training was provided to 470 employees and employers. Twenty-seven employers were certified as satisfying the loss control requirements for the 5% premium discount through the safety incentive program. Staff conducted 257 mine safety inspections and investigations, provided training for 1,730 employees in mining and related industries, conducted on-site consultation to all requesting businesses, continued to license boiler and crane operators, and conducted 1,233 boiler inspections.

SECTION II

INDUSTRY ACTIVITY SUMMARY

The Workers' Compensation and Occupational Disease Acts allow employers to obtain coverage in one of three ways. With Division approval, certain large employers or employer groups which meet statutory and administrative requirements may self insure, Plan I. Coverage also may be secured from a private carrier licensed to write in Montana, Plan II, or from the state-operated insurance program, Plan III, known as the State Compensation Insurance Fund. Information given in the following table displays a summary of the activity for each plan during the last three years.

| Plan I – Self Insurance | 1986–87 | 1987–88 | 1988–89 |
|----------------------------------|---------------|---------------|---------------|
| Number of employers enrolled | 47 | 44 | 47 |
| *Gross annual payroll | \$550,971,920 | \$577,672,509 | \$659,883,509 |
| Number of work injuries reported | 3,359 | 4,177 | 4,420 |
| Number of claims filed | 605 | 667 | 752 |
| Compensation benefits paid | \$8,497,958 | \$8,563,926 | \$10,154,710 |
| Medical & burial benefits paid | \$3,783,168 | \$4,787,563 | \$4,672,347 |
| Uninsured employers assessments | \$2,000 | \$5,000 | \$3,000 |

Plan II – Private Carriers

| | | | | | |
|----------------------------------|--------------|--------------|----|--------------|----|
| Number of employers enrolled | 9,065 | 5,944 | ** | 4,915 | ** |
| * Annual premium | \$41,261,762 | \$58,463,173 | | \$53,078,985 | |
| Number of work injuries reported | 5,596 | 6,295 | | 6,352 | |
| Number of claims filed | 1,304 | 1,404 | | 1,454 | |
| Compensation benefits paid | \$34,311,089 | \$34,120,643 | | \$29,495,207 | |
| Medical & burial benefits paid | \$11,201,664 | \$12,102,565 | | \$9,840,916 | |
| Uninsured employers assessments | \$7,000 | \$4,000 | | \$4,000 | |

Plan III – State Fund

| | | | |
|----------------------------------|--------------|--------------|--------------|
| Number of employers enrolled | 26,950 | 26,929 | 26,172 |
| Annual premium | \$70,161,068 | \$85,865,028 | \$88,448,120 |
| Number of work injuries reported | 16,105 | 18,141 | 18,926 |
| Number of claims filed | 3,660 | 4,025 | 3,901 |
| Compensation benefits paid | \$54,036,180 | \$63,238,309 | \$67,109,189 |
| Medical & burial benefits paid | \$25,513,859 | \$27,319,541 | \$30,628,254 |
| Uninsured employers assessments | \$18,000 | \$24,000 | \$21,000 |

* Figures shown on calendar year basis.

** In previous years, the number of Plan II employers represented the total number of employers ever enrolled under that plan. Beginning with Fiscal Year 1988, the number reported is the number of active policies at the end of each fiscal year.

SECTION III

FINANCIAL

The state's accounting system presently provides ten fund types of which the Division uses five. General Fund--provides funds to cover the costs of the Social Security offset benefit program. Special Revenue Fund--accounts for income generated chiefly from assessments levied against insurers and expended for Division operations. Federal Special Revenue Fund--accommodates funds received from federal sources. Agency Fund--used to account for securities deposited with the Division by insurers to guarantee benefit payments. Expendable Trust Fund--used to account for funds where the Division is designated as custodian or agent.

This statement provides the detailed expenditure activity and the funding sources for each of the Division's four programs for the period ended June 30, 1989.

PROGRAM COST STATEMENT (EXCLUDING STATE COMPENSATION TRUST FUND) FISCAL YEAR ENDED JUNE 30, 1989

| COSTS | Adminis- tration <u>Program</u> | State Fund <u>Program</u> | Compliance <u>Program</u> | Safety <u>Program</u> | <u>Total</u> |
|------------------------------|---------------------------------------|---------------------------------|------------------------------|--------------------------|---------------------|
| Personal Services: | | | | | |
| Salaries | \$ 822,600 | \$ 2,014,680 | \$ 711,494 | \$ 518,848 | \$ 4,067,622 |
| Employee Benefits | 182,724 | 461,406 | 163,935 | 135,122 | 943,187 |
| Sub-Total | \$ 1,005,324 | \$ 2,476,086 | \$ 875,429 | \$ 653,970 | \$ 5,010,809 |
| Operating Expenses: | | | | | |
| Contracted Services | \$ 305,098 | \$ 972,052 | \$ 125,351 | \$ 10,081 | \$ 1,412,582 |
| Supplies & Materials | 27,044 | 62,690 | 11,867 | 23,859 | 125,460 |
| Communications | 48,754 | 252,646 | 80,605 | 20,386 | 402,391 |
| Travel | 10,826 | 28,256 | 12,049 | 76,292 | 127,423 |
| Rent | 15,335 | 25,653 | 1,337 | 2,877 | 45,202 |
| Utilities | 47,280 | 0 | 0 | 0 | 47,280 |
| Repairs & Maintenance | 83,382 | 41,109 | 9,684 | 13,294 | 147,469 |
| Other Expenses | 16,260 | 22,726 | 6,713 | 4,436 | 50,135 |
| Department of Labor Charges | 91,900 | 315,882 | 115,766 | 0 | 523,548 |
| Sub-Total | \$ 645,879 | \$ 1,721,014 | \$ 363,372 | \$ 151,225 | \$ 2,881,490 |
| Equipment | \$ 17,889 | \$ 59,577 | \$ 26,143 | \$ 37,799 | \$ 141,408 |
| Intangible Assets | 243 | 862 | 0 | 0 | 1,105 |
| Sub-Total | \$ 18,132 | \$ 60,439 | \$ 26,143 | \$ 37,799 | \$ 142,513 |
| Transfers | \$ 423,155 | \$ 0 | \$ 0 | \$ 0 | \$ 423,155 |
| Benefits | \$ 0 | \$ 0 | \$ 543,302 | \$ 0 | \$ 543,302 |
| TOTAL PROGRAM COSTS | \$ 2,092,490 | \$ 4,257,539 | \$ 1,808,246 | \$ 842,994 | \$ 9,001,269 |
| SUMMARY OF FUNDING | | | | | |
| General Fund | \$ 0 | \$ 0 | \$ 48,902 | \$ 0 | \$ 48,902 |
| State Special Revenue Fund | 2,068,397 | 4,257,539 | 1,759,344 | 741,948 | 8,827,228 |
| Federal Special Revenue Fund | 24,093 | 0 | 0 | 101,046 | 125,139 |
| TOTAL FUNDING | \$ 2,092,490 | \$ 4,257,539 | \$ 1,808,246 | \$ 842,994 | \$ 9,001,269 |

BALANCE SHEET--JUNE 30, 1989

(EXCLUDING STATE COMPENSATION TRUST FUND)

| | General Fund | State Special Revenue Fund | | |
|--|------------------|----------------------------|---------------------|--|
| | | | | Resource Indemnity Trust Fund Interest |
| | General Fund | Division Administration | Payroll Tax | |
| ASSETS | | | | |
| Cash | \$ | \$ 171,203 | \$ 1,162,393 | \$ |
| Receivables | | 649,004 | 3,248,733 | |
| Supplies Inventory | | 60,809 | | |
| Investments | | | | |
| Property Held in Trust | | | | |
| Expense Advances to Employees | | 17,334 | | |
| Other Prepayments | 40,269 | 111,071 | | |
| Available to Pay Accrued Expenditures | | | | |
| TOTAL ASSETS | <u>\$ 40,269</u> | <u>\$ 1,009,421</u> | <u>\$ 4,411,126</u> | <u>\$ 0</u> |
| LIABILITIES | | | | |
| Accounts Payable | \$ 1,890 | \$ 875,918 | \$ 4,411,126 | \$ 372 |
| Accrued Support Expenditures | | 68,657 | | |
| Contingent Liabilities | | | | |
| Allowance for Contingent Liabilities | | | | |
| Deferred Revenue | | | | |
| Unaccumulated Bond Discounts | | | | |
| Unaccumulated Fed Secur Dists | | | | |
| Bonds Held in Trust | | | | |
| Due to Consolidated Entity | 38,379 | | | (372) |
| FUND BALANCE | | 64,846 | | |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 40,269</u> | <u>\$ 1,009,421</u> | <u>\$ 4,411,126</u> | <u>\$ 0</u> |

(1) In order to determine operating fund balance, Allowance for Contingent Liabilities (reserves) must be deducted from this figure.

| Federal Special Revenue Fund | | | Agency Fund | Expendable Trust Fund | | | |
|------------------------------|-----------------|----------------------|-----------------------|-----------------------|---------------------|------------------|------------------------------------|
| Mine Safety | OSHA Statistics | On-Site Consultation | Insurance Liquidation | Subsequent Injury | Uninsured Employers | Plan I Bonds | Insurance Company Liquidated Bonds |
| \$ 3,832 | \$ | \$ 26 | \$ | \$ 25,589 | \$ 27,624 | \$ 2,215 | \$ 497 |
| 5 | 7,052 | 28,200 | | 37,262 | 943,757 | 1,293 | 87 |
| | | | | 2,686,024 | 1,063,100 | 42,800 | 393,000 |
| | | | 23,606,000 | | | | |
| | | | | 507 | | 118 | |
| <u>\$ 3,837</u> | <u>\$ 7,052</u> | <u>\$ 28,226</u> | <u>\$ 23,606,000</u> | <u>\$ 2,749,382</u> | <u>\$ 2,034,481</u> | <u>\$ 46,426</u> | <u>\$ 393,584</u> |
| \$ 2,316 | \$ 7,052 | \$ 28,226 | \$ | \$ 6,492 | \$ 37,597 | \$ 235 | \$ |
| 110 | | | | (1,143,962) | (390,345) | | |
| | | | | 1,143,962 | 390,345 | | |
| 1,411 | | | | 110,837 | | | |
| | | | | (253) | | | |
| | | | 23,606,000 | | | | |
| | | | | (1) | (1) | | |
| | | | | 2,632,306 | 1,996,884 | 46,191 | 393,584 |
| <u>\$ 3,837</u> | <u>\$ 7,052</u> | <u>\$ 28,226</u> | <u>\$ 23,606,000</u> | <u>\$ 2,749,382</u> | <u>\$ 2,034,481</u> | <u>\$ 46,426</u> | <u>\$ 393,584</u> |

STATEMENT OF CHANGES IN FUND BALANCE

(EXCLUDING STATE COMPENSATION TRUST FUND)

FISCAL YEAR ENDED JUNE 30, 1989

| | General Fund | State Special Revenue Fund | | |
|----------------------------------|-----------------|----------------------------|----------------|--|
| | General Fund | Division Administration | Payroll Tax | Resource Indemnity Trust Fund Interest |
| FUND BALANCE, JULY 1, 1988 | \$ 0 | \$ 74,520 | \$ 0 | \$ 0 |
| ADDITIONS | | | | |
| Legislative Appropriations | \$ 64,583 | \$ | \$ | \$ 545,846 |
| Receipts: | | | | |
| Licenses & Permits | | 34,203 | | |
| Taxes | | | 12,991,267 | |
| Charges for Services | | 923,637 | | |
| Fines & Forfeitures | | | | |
| Federal Indirect Cost Recoveries | | 2,448 | | |
| Other Financing Sources | | 7,695,862 | | |
| Investment Earnings | | | | |
| Federal Assistance | | | | |
| Miscellaneous | | 563 | | |
| Grants, Contracts & Donations | | | | |
| TOTAL ADDITIONS | | | | |
| AND FUND BALANCE | \$ 64,583 | \$ 8,731,233 | \$ 12,991,267 | \$ 545,846 |
| DEDUCTIONS | | | | |
| Support Expenditures | \$ | \$ 8,249,090 | \$ | \$ 10,813 |
| Transfers | | 423,155 | 12,991,267 | |
| Benefits | 48,902 | | | 494,400 |
| Reversions* | 15,681 | | | 40,633 |
| Reduction in Inventories | | 11,573 | | |
| TOTAL DEDUCTIONS | \$ 64,583 | \$ 8,683,818 | \$ 12,991,267 | \$ 545,846 |
| PRIOR YEAR ADJUSTMENTS | | | | |
| Revenue | \$ | \$ (1,332) | \$ | \$ |
| Expenditures | | 18,763 | | |
| TOTAL ADJUSTMENTS | \$ 0 | \$ 17,431 | \$ 0 | \$ 0 |
| FUND BALANCE JUNE 30, 1989 | \$ 0 | \$ 64,846 | \$ 0 | \$ 0 |

*Expenses pertaining to the fiscal year that were not accrued at year end may be paid from the reversions.

Federal Special Revenue Fund

Expendable Trust Fund

| <u>Mine Safety</u> | <u>OSHA Statistics</u> | <u>On-Site Consultation</u> | <u>Subsequent Injury</u> | <u>Uninsured Employers</u> | <u>Plan I Bonds</u> | <u>Insurance Company Liquidated Bonds</u> |
|------------------------|----------------------------|---------------------------------|------------------------------|--------------------------------|-------------------------|---|
| \$ 0 | \$ 0 | \$ 0 | \$ 2,585,926 | \$ 1,905,332 | \$ 0 | \$ 231,968 |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | | 28,000 | | |
| | | | | 1,030,654 | 46,191 | 139,800 |
| | | | 277,974 | 93,434 | | 21,816 |
| 38,829 | 24,094 | 62,167 | | 9,271 | | |
| <u>\$ 38,829</u> | <u>\$ 24,094</u> | <u>\$ 62,167</u> | <u>\$ 2,863,900</u> | <u>\$ 3,066,691</u> | <u>\$ 46,191</u> | <u>\$ 393,584</u> |
| \$ 38,879 | \$ 24,094 | \$ 62,167 | \$ 9,060 | \$ | \$ | \$ |
| | | | | 302,153 | | |
| | | | 217,049 | 298,944 | | |
| <u>\$ 38,879</u> | <u>\$ 24,094</u> | <u>\$ 62,167</u> | <u>\$ 226,109</u> | <u>\$ 601,097</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| \$ | \$ | \$ | \$ | \$ (467,361) | \$ | \$ |
| 50 | | | (5,485) | (1,349) | | |
| <u>\$ 50</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ (5,485)</u> | <u>\$ (468,710)</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 2,632,306</u> | <u>\$ 1,996,884</u> | <u>\$ 46,191</u> | <u>\$ 393,584</u> |

This statement identifies, by source of revenue, the receipts collected during the fiscal years ended June 30, 1988, and June 30, 1989. All funds, except the General Fund, receive revenue collected by the Division from outside sources. Disbursements cannot be made until the Division collects and deposits these receipts in the proper fund within the Treasury System.

COMPARATIVE STATEMENT OF SOURCES OF REVENUE
(EXCLUDING STATE COMPENSATION TRUST FUND)
FISCAL YEARS ENDED JUNE 30, 1988, AND JUNE 30, 1989

| | <u>1988</u> | | <u>1989</u> | |
|-----------------------------------|------------------|----------------------|------------------|----------------------|
| Licenses & Permits: | | | | |
| Engineer Licenses | \$ 28,927 | | \$ 31,054 | |
| Explosives Licenses | <u>3,427</u> | \$ 32,354 | <u>3,149</u> | \$ 34,203 |
| Taxes: | | | | |
| Payroll Tax | | 10,952,370 | | 12,991,267 |
| Service Fees: | | | | |
| Copies of Documents | \$ 38,480 | | \$ 34,162 | |
| Plan I Assessments | 533,853 | | 264,972 | |
| Plan II Assessments | 978,131 | | 778,067 | |
| Jury Duty & Witness Fee | 179 | | 430 | |
| Fatality Assessment | <u>34,000</u> | | <u>28,000</u> | |
| Total Fees | \$ 1,584,643 | | \$ 1,105,631 | |
| Less Transfers to: | | | | |
| Workers' Compensation Judge | <u>(147,898)</u> | 1,436,745 | <u>(153,994)</u> | 951,637 |
| Investment Earnings: | | | | |
| Corporate Bonds | \$ 251 | | \$ 225 | |
| Industrial Bonds | 90,347 | | 38,746 | |
| Railroad Equipment Trusts | 19,400 | | 27,376 | |
| Public Utility Securities | 48,360 | | 38,688 | |
| U.S. Treasury Bills | | | 33,063 | |
| Annual Modified Income | 8,856 | | 32,319 | |
| Short Term Investment Pool | <u>93,698</u> | 260,912 | <u>222,807</u> | 393,224 |
| Fines: | | | | |
| Civil Penalties | \$ 861,537 | | \$ 1,030,654 | |
| Insurance Company Bond Proceeds | <u>0</u> | 861,537 | <u>185,991</u> | 1,216,645 |
| Federal Indirect Cost Recoveries | | 1,880 | | 2,448 |
| Miscellaneous: | | | | |
| Penalties & Interest | \$ 7,279 | | \$ 9,834 | |
| Subrogation | <u>1,425</u> | 8,704 | <u>0</u> | 9,834 |
| Other Financing Sources: | | | | |
| State Compensation Insurance Fund | \$ 6,785,000 | | \$ 7,525,000 | |
| Uninsured Employers Assessments | 275,700 | | 302,153 | |
| Surplus Property Proceeds | <u>0</u> | | <u>950</u> | |
| Total Other | \$ 7,060,700 | | \$ 7,828,103 | |
| Less Transfers to: | | | | |
| Workers' Compensation Judge | <u>(127,005)</u> | 6,933,695 | <u>(132,241)</u> | 7,695,862 |
| Federal Assistance: | | | | |
| Federal Department of Labor: | | | | |
| On-Site Consultation | \$ 49,021 | | \$ 62,167 | |
| Survey Program | 27,357 | | 24,094 | |
| Mining Education | <u>41,576</u> | 117,954 | <u>38,829</u> | 125,090 |
| Increase in Inventories | | 22,159 | | |
| TOTAL REVENUE | | <u>\$ 20,628,310</u> | | <u>\$ 23,420,210</u> |

SECTION IV

STATE COMPENSATION INSURANCE FUND

The following financial statements reflect the status of the State Fund as of June 30, 1989, and the operating results for fiscal year 1989. The negative fund balance increased to \$217,000,000 as of June 30th, based on the actuary's estimate of liabilities. The State Fund continues its plan adopted in 1987 to amortize the negative fund balance over a ten year period.

For the second year in a row, the State Fund's earned premium exceeded the incurred claims and expenses for the fiscal year. Although not conclusive, this trend reflects a positive sign regarding the financial condition of the Fund. As in the past, the Division employed an independent actuary to review the financial and actuarial soundness of the Fund. The actuary's letter report may be found within this section.

STATE COMPENSATION INSURANCE FUND

BALANCE SHEET

JUNE 30, 1989

ASSETS

| | | | | |
|---|----|------------------|------------|----------------------|
| Cash in Treasury | | \$ | 288,675 | |
| Premium Receivable | | | 25,833,190 | |
| Interest Receivable | | | 649,224 | |
| Notes Receivable | | | 318,398 | |
| Adjusted Accounts Receivable | | | 5,083,955 | |
| Property Held in Trust | | | 7,775,415 | |
| Investments: | | | | |
| Mortgages | \$ | 131,476 | | |
| Federal Securities | | 4,999,262 | | |
| Corporate Bonds | | 12,352,733 | | |
| Securities on Loan | | 1,900,000 | | |
| Short Term Investment Pool | | <u>4,204,600</u> | \$ | 23,588,071 |
| Plus: Unamortized Premiums | | | | 9,650 |
| Less: Unaccumulated Bond Discounts | \$ | (1,041,858) | | |
| Unaccumulated Federal Security Distribution | | <u>(71,237)</u> | | <u>(1,113,095)</u> |
| | | | | <u>22,484,626</u> |
| Net Investments | | | | \$ <u>62,433,483</u> |
| TOTAL ASSETS | | | | |

LIABILITIES, RESERVES AND FUND BALANCE

LIABILITIES

| | | | |
|---------------------------|----|-------------------|---------------|
| Adjusted Accounts Payable | \$ | 464,756 | |
| Advance Deposits | | <u>15,023,158</u> | \$ 15,487,914 |

CLAIMS RESERVES

| | | | |
|-----------------------|----|------------------|-------------|
| Compensation Benefits | \$ | 199,470,865 | |
| Medical Benefits | | 63,813,638 | |
| Medical Only Benefits | | <u>1,311,000</u> | 264,595,503 |

FUND BALANCE

| | | | |
|--------------|--|--|----------------------|
| Unrestricted | | | <u>(217,649,934)</u> |
|--------------|--|--|----------------------|

| | | | |
|--|----|-------------------|--|
| TOTAL LIABILITIES, RESERVES AND FUND BALANCE | \$ | <u>62,433,483</u> | |
|--|----|-------------------|--|

STATE COMPENSATION INSURANCE FUND

STATEMENT OF OPERATIONS AND CHANGES IN RESERVES

FOR FISCAL YEAR ENDED JUNE 30, 1989

| | | <u>INCOME</u> | |
|--|----|--------------------|-----------------------------|
| Earned Premium | | \$ | 88,448,120 |
| Interest Earnings on Investments | | | 2,811,894 |
| Payroll Tax | | | 12,991,267 |
| Other Income | | | 33,186 |
| Total Current Year's Income | | \$ | <u>104,284,467</u> |
| Prior Year's Adjustments, Net | | | <u>196,480</u> |
| Total Income | | \$ | 104,480,947 |
| | | <u>EXPENSES</u> | |
| Claims Expenses: | | | |
| Compensation Benefits | \$ | 67,109,189 | |
| Medical Benefits | | <u>30,628,254</u> | |
| Total Claims Expenses | \$ | <u>97,737,443</u> | |
| Other Expenses: | | | |
| Administrative Assessment | \$ | 7,525,000 | |
| Rehabilitation Assessment | | 627,872 | |
| Structured Settlements-Interest | | 10,888 | |
| Miscellaneous Expenses | | <u>729,482</u> | |
| Total Other Expenses | \$ | <u>8,893,242</u> | |
| Total Expenses | | | <u>106,630,685</u> |
| RESULTS OF OPERATIONS BEFORE CHANGES IN RESERVES | | \$ | (2,149,738) |
| Less: Changes in Reserves: | | | |
| Compensation Benefits | \$ | 41,440,502 | |
| Medical Benefits | | 18,354,605 | |
| Medical Only Benefits | | <u>(1,627,550)</u> | <u>(58,167,557)</u> |
| RESULTS OF OPERATIONS AFTER CHANGES IN RESERVES | | \$ | (60,317,295) |
| Prior Year Negative Surplus | | | <u>(157,332,639)</u> |
| NEGATIVE SURPLUS | | \$ | <u><u>(217,649,934)</u></u> |



C&B CONSULTING GROUP

October 11, 1989

Workers' Compensation Division
Department of Labor and Industry
State of Montana
P.O. Box 4759
Helena, Montana 59604-4759

Ladies and Gentlemen:

We have examined the methods and procedures utilized by the Workers' Compensation Division of the Department of Labor and Industry of the State of Montana in the determination of its liabilities for compensation, hospital, medical and other benefits as of the close of its fiscal year ended June 30, 1989, under Compensation Plan Number Three, as set forth in the Workers' Compensation Act. Our examination included a determination of the appropriateness of the underlying methods and procedures, such review of the basic records as we considered necessary in the circumstances and an analysis of the results so obtained.

The resulting liabilities for benefits to be paid, so determined, may be summarized as follows:

| | |
|-----------------------|------------------|
| Compensation benefits | \$ 199,470,865 |
| Medical benefits | 63,813,638 |
| Medical only benefits | <u>1,311,000</u> |
| Total | \$ 264,595,503 |

In our opinion, the above claim liabilities are based upon the benefits provided under the Workers' Compensation Act of the State of Montana. Further, in our opinion, on the basis of the information and procedures referred to above, and upon our assumption that the procedures of the Division are adequate to properly establish and maintain records required for this purpose, such liabilities in the aggregate are reasonable and appropriate as of that date. Because a negative unrestricted fund balance exists as of June 30, 1989, future premiums will need to be drawn upon to satisfy the existing liabilities of the Fund. The continuing financial soundness of the Fund is therefore conditioned upon these future premiums being realized.

By following this procedure each year and by reviewing and adjusting the rates each year to reflect changing benefits and experience, in our opinion, the Fund can continue to be maintained on a sound actuarial and financial basis.

Sincerely yours,

Drew A. James, F.S.A., M.A.A.A.
Vice President and
Senior Consulting Actuary

DAJ/kf

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A CORROON & BLACK COMPANY

SECTION V

Uninsured Employers' Fund

The following tables reflect the statistical and financial activity of the Uninsured Employers' Fund. By statute, the Fund is responsible for investigating uninsured employers, assessing penalties, and paying claims. The Fund uses several sources to identify uninsured employers including accident reports, complaints, cancelled firms, and payroll tax reports.

STATISTICAL ACTIVITY

| | FY 1988 | FY 1989 |
|--|-----------|-----------|
| Number of Compensation Claims Paid | 76 | 33 |
| Number of Investigations Made | 2,426 | 3,572 |
| Number of Audits Performed | 157 | 249 |
| Number of Employers Fined | 444 | 698 |
| Number of Accounts Referred for Collection | 106 | 298 |
| Amount of Billed Fines & Assessments Collected | \$266,536 | \$215,463 |

FINANCIAL ACTIVITY

| | FY 1988 | | FY 1989 | |
|--------------------------|----------------|------------|------------------|------------|
| | Amount | Percent | Amount | Percent |
| Revenue Sources: | | | | |
| Fines & Penalties Billed | \$ 861,537 | 91.8% | \$ 1,030,654 | 88.8% |
| Fatality Assessments | 34,000 | 3.6% | 28,000 | 2.4% |
| Penalties & Interest | 5,555 | 0.6% | 9,271 | 0.8% |
| Interest Earnings | 37,144 | 4.0% | 93,434 | 8.0% |
| TOTAL REVENUE | \$ 938,236 | 100.0% | \$ 1,161,359 | 100.0% |
| Program Costs: | | | | |
| Benefits | \$ 63,546 | 18.7% | 298,944 | 49.7% |
| Administrative Expense | 275,700 | 81.3% | 302,153 | 50.3% |
| TOTAL COSTS | \$ 339,246 | 100.0% | 601,097 | 100.0% |

SECTION VI

STATISTICAL REPORTS

Work Injuries

The Division collects a variety of statistics concerning the nature and scope of industrial injuries. The staff codes the accident data from reports submitted by employers and employees using the standardized system adopted by the Bureau of Labor Statistics.

The following tables and charts present this data for the injuries reported for fiscal year 1989 and provide comparisons to other fiscal years. The data show the number of reported injuries, the cause of the injury, major industry, and several other statistical categories. The information could be useful to employers for comparison with their own accident experience.

NATURE OF INJURY

The nature of injury identifies the injury in terms of its principal characteristics.

| <u>Description</u> | <u>Number</u> | <u>Percent</u> |
|-----------------------------|---------------|----------------|
| Burns | 1,104 | 3.7 |
| Open wounds | 8,017 | 27.0 |
| Sprains & strains | 12,654 | 42.6 |
| Fractures | 1,401 | 4.7 |
| Diseases & toxic effects | 829 | 2.8 |
| Bruises & crushing injuries | 4,006 | 13.5 |
| Multiple | 211 | 0.7 |
| Other | 693 | 2.3 |
| Not classified | <u>784</u> | <u>2.7</u> |
| TOTAL | 29,699 | 100.0% |

PART OF BODY AFFECTED

The part of body identifies the part of the injured person's body directly affected by the injury.

| <u>Description</u> | <u>Number</u> | <u>Percent</u> |
|---------------------|---------------|----------------|
| Head, face and neck | 2,055 | 6.9 |
| Eyes | 2,406 | 8.1 |
| Body systems | 421 | 1.4 |
| Trunk | 1,731 | 5.9 |
| Back and spine | 6,231 | 21.0 |
| Arms and wrists | 2,710 | 9.1 |
| Hands and fingers | 6,106 | 20.6 |
| Upper extremities | 1,282 | 4.3 |
| Legs and ankles | 3,361 | 11.3 |
| Feet and toes | 1,252 | 4.2 |
| Lower extremities | 151 | 0.5 |
| Body multiple | 1,689 | 5.7 |
| Not classified | <u>304</u> | <u>1.0</u> |
| TOTAL | 29,699 | 100.0 % |

ACCIDENT TYPE

The accident type identifies the event which directly resulted in the injury.

| <u>Description</u> | <u>Number</u> | <u>Percent</u> |
|---------------------------|---------------|----------------|
| Struck by object | 8,490 | 28.6 |
| Caught in, on, or between | 1,278 | 4.3 |
| Slips and falls | 4,360 | 14.7 |
| Motor vehicle | 438 | 1.5 |
| Strain or over exertion | 8,982 | 30.2 |
| Temperature extremes | 683 | 2.3 |
| Electrical current | 49 | 0.2 |
| Inhalation | 1,067 | 3.6 |
| Rubbed or abraded | 3,619 | 12.2 |
| Explosions | 8 | 0.0 |
| Not classified | <u>725</u> | <u>2.4</u> |
| TOTAL | 29,699 | 100.0 % |

INDUSTRY GROUP

These are the standard industrial classifications and provide an overview of experience by industry.

| <u>Description</u> | <u>Number</u> | <u>Percent</u> | <u>Employment (thousands)*</u> |
|-------------------------------------|---------------|----------------|------------------------------------|
| Agriculture | 1,708 | 5.8 | 31.4** |
| Mining | 1,041 | 3.5 | 6.3 |
| Construction | 2,937 | 9.9 | 9.0 |
| Manufacturing | 4,752 | 16.0 | 21.4 |
| Transportation and public utilities | 2,002 | 6.7 | 16.4 |
| Wholesale trade | 1,611 | 5.4 | 14.8 |
| Retail trade | 5,448 | 18.3 | 59.5 |
| Finance, insurance, real estate | 323 | 1.1 | 13.1 |
| Services | 8,518 | 28.7 | 64.8 |
| Government: State, Local & Federal | 1,359 | 4.6 | 62.2 |
| Not classified | 0 | 0.0 | 0.2 |
| TOTAL | 29,699 | 100.0 % | |

* Montana Employment & Wages, First Quarter 1989

** U.S. Bureau of Economic Analysis, US Department of Commerce

SOURCE OF INJURY

The source of injury identifies the object, substance, exposure, or bodily motions which directly produced or inflicted the injury.

| <u>Description</u> | <u>Number</u> | <u>Percent</u> |
|-------------------------|---------------|----------------|
| Animals | 534 | 1.8 |
| Atmosphere | 49 | 0.2 |
| Body motion | 2,216 | 7.5 |
| Boilers | 131 | 0.4 |
| Boxes and barrels | 2,643 | 8.9 |
| Buildings | 953 | 3.2 |
| Chemicals | 750 | 2.5 |
| Conveyors | 55 | 0.2 |
| Dirt masses | 682 | 2.3 |
| Electrical apparatus | 297 | 1.0 |
| Flame and smoke | 242 | 0.8 |
| Food | 283 | 1.0 |
| Furniture | 1,292 | 4.4 |
| Glass | 345 | 1.2 |
| Hand tools | 2,977 | 10.0 |
| Hoisting apparatus | 188 | 0.6 |
| Ladders | 96 | 0.3 |
| Machines | 1,509 | 5.1 |
| Mechanical transmission | 7 | 0.0 |
| Metal items | 2,533 | 8.5 |
| Particles | 1,240 | 4.2 |
| Textile | 122 | 0.4 |
| Trees | 1,843 | 6.2 |
| Vehicles | 1,388 | 4.7 |
| Working surfaces | 4,037 | 13.6 |
| Miscellaneous | 2,531 | 8.5 |
| Not classified | 756 | 2.5 |
| TOTAL | 29,699 | 100.0 % |

AGE AND SEX OF INJURED PERSONS

This table compares the work injuries for fiscal year 1989 by age group and sex. The median age of injured male workers was in the 30-34 year age group, while the median age of injured female workers was in the 35-39 year age group.

| <u>Age Group</u> | <u>Male</u> | <u>Female</u> | <u>Both</u> |
|-----------------------|---------------|---------------|---------------|
| Below 15 | 24 | 11 | 35 |
| 15-19 | 1,109 | 606 | 1,715 |
| 20-24 | 2,669 | 1,160 | 3,829 |
| 25-29 | 3,658 | 1,401 | 5,059 |
| 30-34 | 3,570 | 1,417 | 4,987 |
| 35-39 | 2,843 | 1,221 | 4,064 |
| 40-44 | 2,012 | 1,026 | 3,038 |
| 45-49 | 1,392 | 779 | 2,171 |
| 50-54 | 1,003 | 580 | 1,583 |
| 55-59 | 820 | 447 | 1,267 |
| 60-64 | 481 | 248 | 729 |
| 65-69 | 113 | 53 | 166 |
| 70-74 | 27 | 25 | 52 |
| Over 75 | 17 | 12 | 29 |
| Not Classified by Age | 675 | 256 | 931 |
| Sex Unknown | | | 44 |
| TOTAL | 20,413 | 9,249 | 29,699 |

ACCIDENT TRENDS

The number of accidents reported compared to the civilian labor force increased slightly in 1988. During the ten years between 1979 and 1988, the percentage peaked at 9.3% in 1979 and reached an all-time low of 6.2% in 1987.

| <u>Calendar Year</u> | <u>Civilian Percent Labor Force In Montana</u> | <u>Having Accidents</u> |
|--------------------------|--|-----------------------------|
| 1979 | 371,000 | 9.3 % |
| 1980 | 371,000 | 9.2 % |
| 1981 | 385,000 | 8.6 % |
| 1982 | 394,000 | 7.8 % |
| 1983 | 395,000 | 7.7 % |
| 1984 | 404,000 | 7.7 % |
| 1985 | 405,000 | 7.4 % |
| 1986 | 407,000 | 6.6 % |
| 1987 | 403,000 | 6.2 % |
| 1988 | 401,000 | 7.1 % |

Lost time injuries as a percent of reported accidents decreased from 28.1% in 1988, to 27.2% in 1989. During prior reporting periods, the percentage hit a high of 30.6% in 1984 and a low of 26.8% in 1987. The 1989 figures show a 3.8% increase in the number of accidents reported and a 0.6% increase in lost time injuries from the prior year.

| <u>Fiscal Year Ending</u> | <u>Reported Accidents</u> | <u>Lost Time Injuries</u> | <u>Percentage Total</u> |
|-------------------------------|-------------------------------|-------------------------------|-----------------------------|
| 1979 | 34,295 | 10,185 | 29.7 % |
| 1980 | 34,736 | 10,306 | 29.7 % |
| 1981 | 33,888 | 10,127 | 29.9 % |
| 1982 | 31,953 | 8,903 | 27.9 % |
| 1983 | 29,717 | 8,709 | 29.3 % |
| 1984 | 31,343 | 9,597 | 30.6 % |
| 1985 | 31,243 | 9,533 | 30.5 % |
| 1986 | 28,579 | 9,013 | 31.5 % |
| 1987 | 25,060 | 6,721 | 26.8 % |
| 1988 | 28,613 | 8,026 | 28.1 % |
| 1989 | 29,699 | 8,077 | 27.2 % |

INJURY AFFECT ON WORK ATTENDANCE

The table presented here attempts to display how industrial injuries are affected by a worker's ability to return to the next scheduled work shift following an accident. Cases where there was a medical cost involved but the worker made the next scheduled work shift are categorized as "no lost time injuries." If a determination could not be made as to medical cost or lost time, the injury was reported in the "unknown" category.

| <u>Fiscal Year</u> <u>Ending</u> | <u>Total</u> <u>Injuries</u> | <u>Lost Time</u> <u>Injuries</u> | <u>No Lost</u> <u>Time</u> <u>Injuries</u> | <u>Fatalities</u> | <u>Unknown</u> |
|-------------------------------------|---------------------------------|-------------------------------------|--|-------------------|----------------|
| 1979 | 34,295 | 10,185 | 19,939 | 38 | 4,133 |
| 1980 | 34,736 | 10,306 | 20,555 | 37 | 3,838 |
| 1981 | 33,888 | 10,127 | 20,608 | 45 | 3,108 |
| 1982 | 31,953 | 8,903 | 19,352 | 44 | 3,654 |
| 1983 | 29,717 | 8,709 | 16,153 | 45 | 4,810 |
| 1984 | 31,343 | 9,597 | 11,196 | 48 | 10,502 |
| 1985 | 31,243 | 9,533 | 9,908 | 40 | 11,762 |
| 1986 | 28,579 | 9,013 | 12,448 | 20 | 7,098 |
| 1987 | 25,060 | 6,721 | 10,726 | 36 | 7,577 |
| 1988 | 28,613 | 8,026 | 18,478 | 25 | 2,084 |
| 1989 | 29,699 | 8,077 | 19,313 | 35 | 2,309 |

FATALITIES BY FISCAL YEAR

| <u>YEAR</u> | <u>NUMBER</u> |
|-------------|---------------|
| 1980 | 37 |
| 1981 | 45 |
| 1982 | 44 |
| 1983 | 45 |
| 1984 | 48 |
| 1985 | 40 |
| 1986 | 20 |
| 1987 | 36 |
| 1988 | 25 |
| 1989 | 35 |

FATALITIES

The table presented here provides information on industrial-related fatalities by type of insurer during the 1989 fiscal period.

| INDUSTRY | PLAN I | PLAN II | PLAN III | TOTAL |
|-----------------------|-----------|------------|-------------|-------|
| AGRICULTURE | | | | |
| Inhalation of smoke | | | 1 | 1 |
| Heart attack | | | 1 | 1 |
| MINING | | | | |
| Vehicle accident | | | 1 | 1 |
| TRADE | | | | |
| Vehicle accident | | 1 | | 1 |
| Heart attack | | | 1 | 1 |
| CONSTRUCTION | | | | |
| Vehicle accident | | | 3 | 3 |
| Heart attack | 2 | | | 2 |
| Train accident | | | 2 | 2 |
| Ditch cave in | | | 1 | 1 |
| Electrocution | | | 1 | 1 |
| Asbestos poisoning | | | 1 | 1 |
| Struck by car | | | 1 | 1 |
| MANUFACTURING | | | | |
| Heart attack | | 1 | 1 | 2 |
| Electrocution | | | 1 | 1 |
| Struck by tree | | | 1 | 1 |
| Vehicle accident | | 1 | 1 | 2 |
| Explosion | 2 | | | 2 |
| Struck by metal | | | 1 | 1 |
| TRANSPORTATION | | | | |
| Aircraft accident | | 2 | | 2 |
| Vehicle accident | | | 2 | 2 |
| Heart attack | 1 | | | 1 |
| Heart disease | | 1 | | 1 |
| PUBLIC ADMINISTRATION | | | | |
| Gun shot | 1 | | | 1 |
| SERVICES | | | | |
| Gun shot | | | 1 | 1 |
| Heart attack | | | 1 | 1 |
| Asbestosis | | 1 | | 1 |
| TOTAL | 6 | 7 | 22 | 35 |

INJURY AND ILLNESS INCIDENCE RATES

| Industry | Lost | | | | | | No Lost | |
|--|-------------|------|---------------|------|----------|-------|---------------|------|
| | Total Cases | | Workday Cases | | Workdays | | Workday Cases | |
| | 1987 | 1988 | 1987 | 1988 | 1987 | 1988 | 1987 | 1988 |
| All Industries* | 9.0 | 9.3 | 3.6 | 3.6 | 80.2 | 74.6 | 5.4 | 5.6 |
| Agriculture, Forestry and Fishing** | 13.2 | 14.3 | 4.6 | 5.6 | 60.1 | 110.2 | 8.6 | 8.7 |
| Mining | 7.9 | 10.2 | 4.3 | 5.7 | 119.4 | 126.5 | 3.5 | 4.5 |
| Construction | 14.8 | 20.3 | 5.0 | 7.2 | 100.3 | 112.6 | 9.8 | 13.1 |
| Manufacturing | 20.2 | 21.0 | 9.4 | 8.5 | 217.1 | 172.5 | 10.8 | 12.5 |
| Transportation, Communication and Public Utilities | 7.6 | 8.9 | 4.0 | 4.0 | 87.1 | 77.1 | 3.6 | 4.9 |
| Wholesale and Retail Trade | 7.6 | 7.4 | 2.6 | 2.7 | 49.0 | 44.3 | 5.0 | 4.8 |
| Wholesale Trade | 8.7 | 8.9 | 3.9 | 3.7 | 75.7 | 64.8 | 4.8 | 5.1 |
| Retail Trade | 7.2 | 6.9 | 2.2 | 2.3 | 40.3 | 37.3 | 5.1 | 4.6 |
| Finance, Insurance, and Real Estate | 1.1 | 0.9 | 0.2 | 0.4 | 7.2 | 12.1 | 0.9 | 0.7 |
| Services | 7.8 | 6.9 | 2.9 | 2.5 | 68.7 | 69.8 | 4.9 | 4.4 |

* Private sector

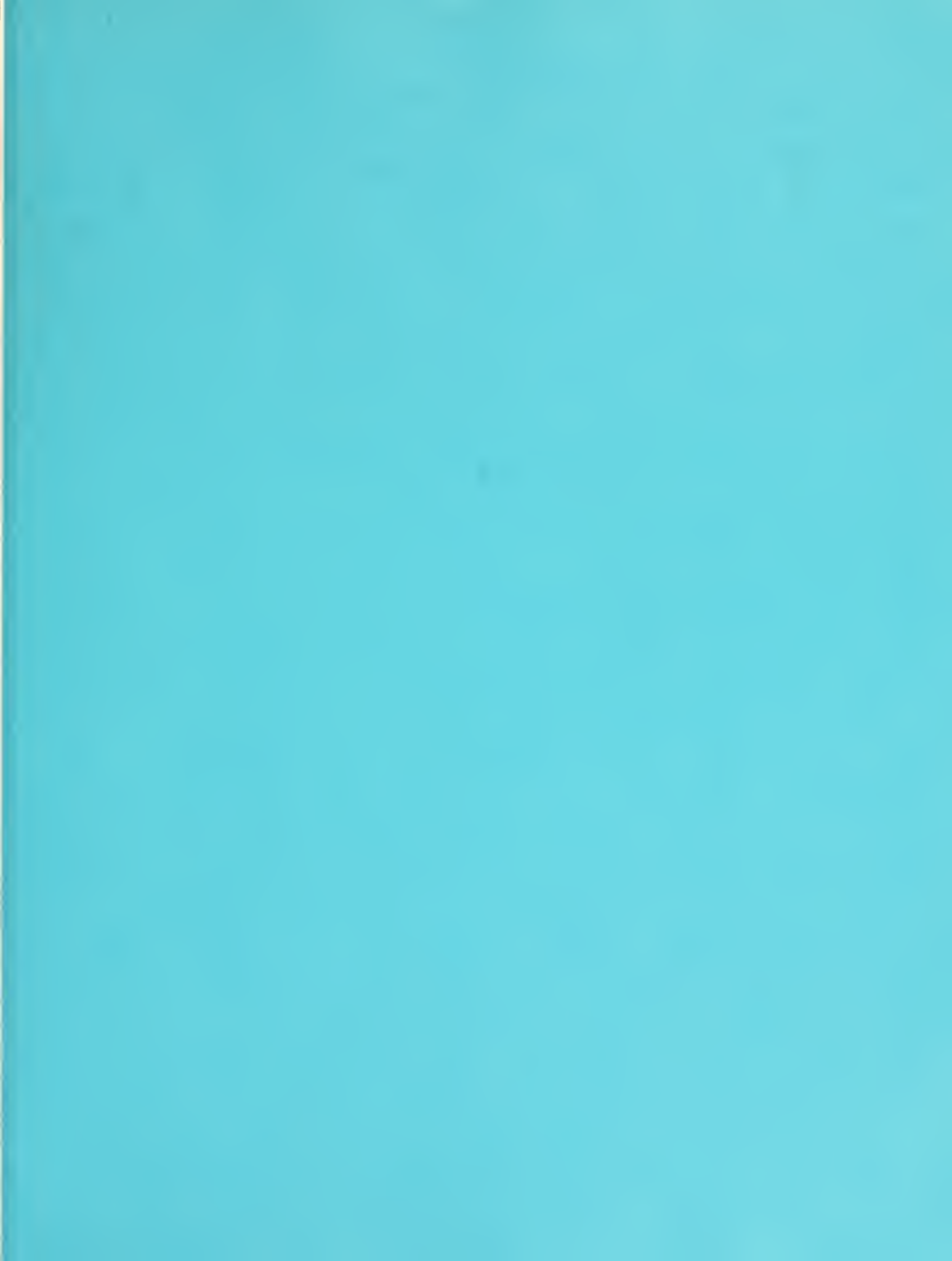
** Does not include agriculture with ten or fewer employees

Incidence rates were calculated as follows: $N/EH \times 200,000$ where

N = number of illnesses and injuries or lost workdays

EH = total hours worked by all employees during the calendar year

200,000 = base for 100 full-time equivalent workers (50 weeks x 40 hours)



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